National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 1278
SESSION 2010–2012

20 JULY 2011

Reducing Costs in HM Revenue & Customs

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National Audit Office

Reducing Costs in HM Revenue & Customs

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

18 July 2011

Reducing the budget deficit is a Government priority. The 2010 Spending Review announced significant spending reductions across government. HM Revenue & Customs has committed to reducing its running costs by 25 per cent in real terms by 2014-15.

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This report can be found on the National Audit Office website at www.nao.org.uk/hmrc-cost-reduction-2011

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Key facts

£3.5bn
HMRC's annual running costs in 2010-11, the baseline year

£1.6bn
target total reduction in running costs over the four years to 2014-15

£7bn
a year of additional tax revenues to be generated by 2014-15 from re-investing £917 million

£8.3 billion	target for cumulative savings in Tax Credits, Child Benefit and other welfare entitlements in 2011-15
£40.5 billion	2010-11 spending on Tax Credits, Child Benefit and other welfare entitlements
£1.6 billion	target for cash savings in running costs over the four years to 2014-15, amounting to 25 per cent in real terms
£3.5 billion	HMRC's running costs, excluding depreciation, in 2010-11
£468.9 billion	tax revenues collected by HMRC in 2010-11
£917 million	target for savings to be re-invested over four years in tackling tax non-compliance
£7 billion	target of additional tax revenue to be generated annually by 2014-15 from re-investing in tackling non-compliance (in addition to an extra £13 billion a year already included in HMRC's baseline)

Summary

1 Reducing the budget deficit is a Government priority. The 2010 Spending Review announced significant spending reductions across government. HM Revenue & Customs (HMRC) will contribute to reducing the budget deficit in two ways: by spending less and increasing tax revenues. In 2010-11 it spent £3.5 billion in running costs and £40 billion mainly on Tax Credits and Child Benefit, and it raised £469 billion in tax revenues.

2 HMRC aims to create a more efficient, flexible and effective tax administration that focuses on customer needs. It has committed to reducing running costs by 25 per cent in real terms by 2014-15, which amounts to cumulative cash savings of £1.6 billion (Figure 3 on page 14). Over this period, HMRC will re-invest £917 million of these savings to tackle tax evasion and avoidance and bring in additional tax revenues of £7 billion a year by 2014-15. HMRC is also required to reduce expenditure on Child Benefit and Tax Credits by £8.3 billion over the period. Its other main priorities are to reduce tax credit error and fraud by £2 billion a year; stabilise its National Insurance and PAYE Service; and reform the PAYE system.

3 Securing value for money from cost reductions involves more than just implementing planned cuts. Uniform top slicing of budgets or indiscriminate cost-cutting can leave an organisation at risk of building up higher costs in future. Expenditure cuts can generate long term efficiency savings only through fundamental reform of existing practices, such as restructuring an organisation to focus more tightly on service delivery, and by changing behaviours to raise awareness of the need for cost control.

4 This is one of a series of National Audit Office reports on how government departments are implementing their cost reductions and we expect to report at regular intervals over the Spending Review period. The first was on the Department for Work and Pensions. This report sets out HMRC's cost reduction proposals within its wider change programme (Part One); assesses HMRC's approach to identifying and assessing cost reduction measures (Part Two); and examines HMRC's plans for implementing cost reductions (Part Three). Our examination is based on the Department's plans at May 2011. Appendix One summarises our audit methodology.

5 This report is also part of a wider programme of audit we conduct on HMRC. The programme includes our annual audit of HMRC's accounts and examination of its systems for assessing and collecting taxes, and value for money studies and other work either across government or focusing on the Department. In devising our programme we have regard to the NAO's three strategic themes of cost-effective service delivery, financial management and informed government. Recognising the Department's challenge of creating a more efficient, flexible and effective tax administration, we seek to provide objective insight on how HMRC is:

- transforming its performance and improving compliance among taxpayers and benefit and tax credit claimants using its customer-centric approach; and
- achieving value for money by delivering a lower sustainable cost base while increasing revenues.

6 In undertaking this study, we took account of this broader programme of work, including our validation of HMRC's Spending Review 2007 efficiency savings, and our reports on HMRC's PaceSetter programme to improve business operations and on the Department's accounts.

Key findings

Cost reduction within a broader vision of strategic change

7 The first stage to achieving large scale cost reductions is to define a target operating model that is, in effect, a vision of how an organisation will look in the future given its objectives. Such a model should be refined through regular iteration as the analysis of information develops. By drawing on an analysis of the cost and value of existing activities and comparing these to the model, an organisation can then start to prioritise where it uses its resources and identify those areas to be trimmed.

8 **HMRC established a clear vision for the Spending Review period but has not yet developed a sufficiently defined operating model.** Its vision – to become more efficient, more flexible in dealing with customers and more effective in collecting tax revenues – set the context for the Spending Review settlement. HMRC also used its customer-centric strategy as a framework for assessing its proposals. In developing its plans, it specified operational priorities; tax revenue targets; and levels of business performance and customer service in some areas, such as PAYE, and dealing with calls and correspondence from customers. Much of its focus was on the impact of reducing costs on its ability to collect tax revenues, reflecting the key role of maximising tax revenues in reducing the budget deficit. HMRC has since developed a performance framework which defines expectations for some indicators in 2011-12. It has not though assessed or quantified the desired increase in levels of customer compliance, and how that might affect its cost base. Analysis of intended business performance and levels of customer compliance would provide a basis for assessing the overall cost base needed, and a framework for evaluating the changes that are needed.

9 HMRC's cost reduction measures and Change Programme involve wide ranging changes that, taken together, carry significant risks. HMRC has reported savings of some £1.4 billion since 2005. It now plans to implement 54 change projects, of which 24 are intended to reduce running costs by £964 million over four years. It is seeking to deliver further cost reductions of £647 million through savings in the provision of IT services, improvements in productivity, reduced sickness absence and headcount reductions by business areas. The size and shape of HMRC will change substantially as it reduces staff numbers by 10,000; redeploys, retrains and recruits 9,000 staff; significantly reduces the number of offices; re-organises corporate services; and implements major changes in approach in the Enforcement and Compliance and Personal Tax business areas. Its recent experience of implementing the new PAYE system emphasises the importance of robust strategies to mitigate the risks.

Understanding costs and value

10 Identifying and prioritising cost reductions requires a detailed knowledge of where costs are being incurred, the factors driving costs and the value of activities. Departments should have a good understanding of the distribution and profile of costs and the links between costs and the delivery of value. Information on business costs enables rational choices about what to stop, what to change and what to continue. Without this information, cost reductions are less likely to lead to efficiency savings.

11 In assessing potential cost reductions, HMRC had good information on the different costs it incurs, but had a limited understanding of the link between the cost and value of its activities. HMRC undertook a systematic approach to identifying cost reductions, drawing upon previous experience and work with the Cabinet Office to benchmark its costs. It had a good understanding of staff, estates and IT costs, and Corporate Services had good unit cost information, for example on IT. However, HMRC had limited information on the cost of its end to end processes, the cost of servicing different customer groups, and on the links between costs and value, which restricted its ability to assess long term efficiency gains. HMRC is improving its data on the cost of key activities and customer interactions, and has introduced a requirement for teams to assess whether savings are affecting operational performance.

12 HMRC's cost reduction proposals involve much uncertainty. It is preparing full business cases for the 24 projects to deliver £964 million of running cost reductions. This will enable HMRC to refine its estimates of the funding needed and the potential savings, and build greater confidence in the planned level of reductions. Further, some of the assumptions that underpin proposed savings of £412 million have not been fully tested, including planned reductions in sickness absence and the roll out of the PaceSetter programme. Our July 2011 report found that while the PaceSetter programme had led to some improvements in efficiency, the extent of these was not clear.

13 There is no contingency in HMRC's cost reduction plans. HMRC has developed plans that meet its cost reduction target but has made no allowance for under-delivery or slippage, and currently has no reserve of proposals on which to draw. It will be crucial, therefore, that HMRC delivers the expected trajectory of savings. HMRC expects business areas to live within their annual budgets while maintaining performance and has also developed governance arrangements to identify early signs of under-delivery. While it can point to its past performance in reducing costs, there remains the risk that measures to compensate for any shortfall could involve short-term non-sustainable cost reductions that could have an adverse impact on customer experience or business performance.

Delivering cost reductions

14 By following a step-by-step process of change, an organisation should be able to restructure its activities without disrupting ongoing service delivery. A change programme will typically involve a suite of projects and initiatives to re-structure existing processes, a communications strategy to convince and assure staff of the need for change, and a measurement system to monitor progress and evaluate impact.

15 HMRC has established comprehensive governance arrangements to deliver cost reductions; recognised the need to improve staff engagement; and is developing information to monitor progress. It has established a central team and programme management infrastructure; assigned responsibilities for delivery across business areas; and is developing a wide range of management information to monitor progress and identify early signs of slippage or under-delivery. HMRC has also developed plans to improve staff engagement and a communications strategy to keep staff informed of the changes taking place.

16 HMRC has begun to implement its cost reduction proposals. 2011-12 is a crucial year when HMRC is planning to spend £136 million (43 per cent of its investment funds for the four years) on implementing cost reduction projects. While it is often effective to spend early in a change programme to achieve greater benefits later, it carries a risk because HMRC does not expect full business cases for all projects to be ready until late summer 2011 and it can carry forward each year only limited amounts of any underspending. It has introduced a fast-track process to release funds for some projects in advance of full business case approvals; and started its organisational re-design.

17 HMRC recognises the main delivery challenges but has yet to assess the dependencies between projects and the critical path for delivery. It has identified management capacity, staff capability and its flexibility to redeploy staff as factors crucial to delivering its Change Programme. The challenges are most clearly illustrated in the Personal Tax business area, which is introducing significant changes and reducing staff numbers by 34 per cent by 2015. HMRC is developing arrangements to manage these risks, including a portfolio plan and a comprehensive workforce plan to manage staff redeployment. It has not, though, yet fully established the dependencies between projects and the critical path for delivering cost reductions and the wider Change Programme.

Conclusion on value for money

18 HMRC faces a significant challenge in reducing running costs by £1.6 billion over the next four years, at the same time as reducing welfare payments by £8.3 billion, increasing tax revenues and improving customer service. Delivering these commitments requires a clear vision; a good understanding of cost drivers; and a coherent and well informed plan. HMRC has established a clear vision for 2015 but it has not sufficiently defined the business performance and customer service it intends to achieve. While it knows its main running costs, it does not have a good understanding of the link between costs and value, and there is uncertainty and a lack of contingency in its cost reduction plans. It has put in place many of the necessary arrangements for delivering its cost reductions, although it has yet to develop a full understanding of the dependencies between projects and the critical delivery path. It is important that HMRC addresses these gaps to create the conditions to achieve value for money over the next four years.

Recommendations

19 Our recommendations are designed to help HMRC secure value for money in achieving its cost reduction commitments.

Cost reduction within a broader vision of strategic change

a **HMRC has not yet developed a detailed operating model needed to support its vision.** In defining how to achieve its vision, HMRC should extend its Performance Framework to define its expectations for all performance indicators up to 2015. This would include assessing the potential for reducing costs and increasing revenue from a positive shift in customer compliance and improvements in business performance; for example, in the accuracy of processing. In the interim, business areas should define models of how they will operate in the future.

Understanding costs and value

b **HMRC had limited information to assess fully the opportunities for cost reductions or the impact of cost reductions on business performance.** It should:

- analyse the link between the cost and value of its activities, to strengthen its ability to assess whether cost reductions are delivering efficiency savings; and
- draw on its initiatives to improve the quality of cost data to assess the potential for further structured cost reductions.

c **There is no contingency in HMRC's cost reduction plans, which increases the risks of under-delivery.** HMRC faces significant challenges in delivering the Change Programme while maintaining business performance and implementing operational priorities. Drawing on its experience in delivering change programmes, it should:

- ensure its governance arrangements are working effectively to provide early sight of under-delivery;
- reassess that it has the necessary programme management skills to deliver the projects; and
- start to identify a pool of additional proposals that it could draw on if required.

Delivering cost reductions

d **HMRC has not developed a detailed understanding of the dependencies between projects, but it has begun work on these issues.** It should:

- evaluate the dependencies between projects; the sequencing of projects needed to achieve cost reductions and realise benefits; and identify a critical path for delivery;
- evaluate the practical implications of delivery and assess the potential overlap between different projects and business areas;
- periodically test the overall deliverability of its plans; and
- after one year, review its programme and risk management arrangements to ensure that they remain fit for purpose.

Part One

HMRC's cost reduction plans and wider change programme

1.1 Reducing the budget deficit is a Government priority. In October 2010 the Government published its Spending Review, which sets spending and capital budgets for each department over the four years 2011-12 to 2014-15. This Part summarises HMRC's:

- Spending Review settlement;
- plans to reduce its running costs;
- wider Change Programme; and
- past performance in reducing costs.

HMRC's settlement

1.2 HMRC is the UK's main tax administrator and also supports families and individuals through the benefits and credits it administers. In 2010-11, the baseline year for the Spending Review, it collected £469 billion in taxes and national insurance contributions; paid out £40 billion in Tax Credits, Child Benefit and other welfare entitlements; and spent £3.5 billion on running costs.

1.3 HMRC's priorities for the Spending Review period are, by 2014-15, to:

- make efficiency savings of 25 per cent;
- bring in additional revenues of £20 billion a year, including £7 billion from reinvesting some of the savings;
- reduce fraud and error in the tax credit and benefit system by £2 billion a year; and
- stabilise the National Insurance and PAYE Service and introduce real-time information to support more fundamental changes to the PAYE service from 2013 and wider reform of welfare benefits.

1.4 HMRC's settlement requires it to reduce its running costs by 25 per cent in real terms by 2014-15; and to achieve this through efficiency savings while maintaining the collection of tax revenues. In negotiating the settlement, HM Treasury recognised how HMRC could contribute to reducing the budget deficit in two ways: by reducing its costs and increasing tax revenues. As a result, the settlement allowed HMRC to re-invest £917 million of savings to deliver extra revenue of £7 billion a year by 2014-15 through additional enforcement and compliance work. Taking the re-investment into account, the net reduction in HMRC's running costs amounts to 16.5 per cent in real terms over the Spending Review period (**Figure 1**).

1.5 Re-investing £917 million of savings in enforcement and compliance work means that HMRC's headcount is planned to reduce by 10,000 posts by 2015 (**Figure 2**), rather than 19,000 had no re-investment been allowed. There will be some 9,000 new posts in high value enforcement and compliance work and HMRC is planning a major programme to redeploy, retrain and recruit suitable staff.

1.6 HMRC met HM Treasury's 13 week timetable for submitting Spending Review proposals. To do this, HMRC brought together key decision makers to resolve issues quickly and its Executive Committee oversaw development of the Spending Review proposition and Change Programme. HMRC's criteria were that cost reduction proposals had to be sustainable and there should be no adverse impact on quality, such as on accuracy rates or response times to customers.

Figure 1
The impact of re-investment on HMRC's planned running costs

	Baseline 2010-11 (£bn)	2011-12 (£bn)	2012-13 (£bn)	2013-14 (£bn)	2014-15 (£bn)	Change from 2010-11 to 2014-15 (%)
Before re-investment						
Total allowed expenditure in cash terms	3.479	3.300	3.141	2.999	2.865	-17.6
Total at 2010-11 prices	**3.479**	**3.235**	**3.012**	**2.803**	**2.609**	**-25.0**
After re-investment						
Revised total allowed expenditure in cash terms	3.479	3.432	3.322	3.268	3.191	-8.3
Total including re-investment at 2010-11 prices	**3.479**	**3.365**	**3.195**	**3.054**	**2.906**	**-16.5**

NOTES
1 Figures exclude capital expenditure and depreciation.
2 Figures exclude additional funding of £320 million for specific items not within the running costs baseline: staff exit costs; enhancements to Child Benefit administration; and the PAYE Real Time Information project costs. If this expenditure is included the overall reduction to HMRC's funding is 15.4 per cent.

Source: National Audit Office analysis of HM Revenue & Customs settlement

Figure 2
Expected change in HMRC's staffing profile

Business area	April 2011		April 2015 (Planned)	
	Staff numbers	(%)	Staff numbers	(%)
Enforcement and Compliance	25,500	39	27,900	50
Personal Tax	24,900	38	16,400	29
Benefits and Tax Credits	5,800	9	4,500	8
Corporate Services	5,900	9	4,200	7
Business Tax	3,900	6	3,100	6
Total	**65,900**	**100**	**56,100**	**100**

NOTES
1 Numbers expressed as permanent Full Time Equivalents.
2 Totals may not sum due to rounding.

Source: HM Revenue & Customs

1.7 HMRC's proposals were subject to independent challenge by a 'Star Chamber', chaired by the Director of Internal Audit and comprising HM Treasury representatives, and an Independent Challenge Panel comprising senior figures from other public and private sector bodies. The panels scrutinised HMRC's calculations and assumptions, and reviewed its plans. The Independent Challenge Panel emphasised the importance of HMRC's role as a revenue collector and supported its proposals for re-investment to maximise revenues.

1.8 Under the settlement, HMRC is also required to implement the Government's welfare reforms to reduce its expenditure on Tax Credits, Child Benefit and other welfare entitlements, known as Annually Managed Expenditure. It paid out £40 billion in 2010-11 and is required to make reductions of £8.3 billion over the four years to 2015. The expenditure is not wholly within HMRC's control as payments must be made to those who are eligible, and therefore depends on demographic changes and economic conditions. The planned savings are:

- £2,485 million from changes to Child and Working Tax Credits entitlements from 2011-12;
- £5,510 million from withdrawal of Child Benefit from higher rate taxpayer families from 2013; and
- £300 million from using real-time information to inform the calculation of tax credit payments from 2014, thereby reducing the level of in-year overpayments which need to be recovered.

1.9 The changes in Tax Credit and Child Benefit entitlements are dependent on Parliament approving the necessary legislation. They will also require HMRC to make changes to its administrative systems for checking entitlements and making payments. The Child Benefit changes in particular require HMRC to link the Child Benefit system to taxpayer information on individuals within the same household. The application of real-time information is dependent on successful implementation by 2013-14 of a new system to obtain information from employers on individuals' Income Tax and National Insurance deductions throughout the year, rather than at year-end. This system is also intended to underpin the introduction of Universal Credit in 2013 to replace a number of existing welfare benefits.

1.10 HMRC is also expected to make further reductions of £7.6 billion in Annually Managed Expenditure from implementing a new strategy to tackle error and fraud in Tax Credits. The strategy, which is jointly operated with the Department for Work and Pensions, seeks to reduce the level of error and fraud to 5 per cent by 2010-11, from a level of 9 per cent in 2008-09, by targeting high risk claims and correcting awards before they enter the system. Our reports on HMRC's Accounts have examined the levels of error and fraud and the Department's progress in tackling this. In 2010-11 we found evidence that the new approach was working and there was scope to improve the consistency and accuracy of its measurement processes and related assurance activities.

How HMRC plans to reduce its running costs

1.11 The requirement to make an initial cost reduction of 25 per cent in real terms by 2014-15 translates into a cash saving of £1,611 million over four years (**Figure 3**). £714 million (44 per cent) must come from administrative activities.

Figure 3
Reduction in running costs required to achieve the 25 per cent saving target

	Required reduction in expenditure (in cash terms)				
	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	Total (£m)
Frontline activities	99	188	267	343	**897**
Administrative activities[2]	80	150	213	271	**714**
Total	**179**	**338**	**480**	**614**	**1,611**

NOTES
1 The figures represent the difference between planned expenditure for the year and the 2010-11 baseline.
2 Administrative costs cover staff, IT, accommodation and other expenditure related to the internal functions of HM Revenue & Customs, such as finance, human resources and policy development.

Source: National Audit Office analysis of HM Revenue & Customs settlement

1.12 HMRC plans to achieve the initial 25 per cent reduction in costs mainly through staff reductions; a significant reduction in the number of offices; improvements in efficiency and productivity; reducing the time spent correcting customer errors in incoming information; and re-organising corporate services, such as its human resource function in line with a cross-Government initiative. HMRC is implementing these changes through:

- twenty-four investment projects to achieve cost reductions of £964 million over the period, 60 per cent of the total cash savings of £1,611 million over the Spending Review period. HMRC estimates that these projects will require £319 million of investment and generate £1.7 billion of additional revenue. The cost reduction projects also seek to generate benefits to customers, for example in reducing the time it takes to deal with their tax obligations; and
- achieving further cost savings of £647 million in business areas, including improved staff productivity from rolling out the PaceSetter programme, better targeting of compliance work, reducing staff sickness absence and lower IT costs.

HMRC's wider Change Programme

1.13 HMRC is implementing its cost reduction initiatives within a wider Change Programme which also aims to achieve increased tax revenues and improved customer experience. **Figure 4** overleaf shows the Programme's profile of required funding, projected benefits and cost reductions for 2011 to 2015. The planned investment costs total £1.8 billion, of which £319 million relates specifically to the cost reduction projects. HMRC estimates that Change Programme projects will deliver revenue benefits of £31 billion in the four years to 2015. The Programme also includes projects that have only revenue and customer benefits, and projects to maintain the integrity of HMRC's IT systems.

HMRC's past performance in reducing costs

1.14 In the six years since it was created in 2005, HMRC has reported savings totalling £1.4 billion. The cost reductions required over the 2010 Spending Review equate to around 6 per cent a year in real terms, similar to the level achieved over the 2007 Spending Review period, covering the three years from 2008-09 to 2010-11. Preliminary outturn figures for 2010-11 indicate HMRC has met its cost reduction targets (**Figure 5** on page 17), and achieved an 18 per cent real terms reduction in costs over the three years.

Figure 4

Summary of Change Programme projects 2011-15

Type and number of projects	Planned investment costs (£m)	Estimated cost reductions (£m)	Estimated additional tax revenues (£m)	Estimated benefits for customers (£m)
Projects contributing to cost reduction (24)[1]	319	964	1,681	525
Projects whose primary benefit is additional tax revenue (9)	286	–	11,634	–
Projects whose primary benefit is for customers (2)	223	–	458	7,034
Projects with indirect benefits (9)[2]	62	–	–	–
Sub-total (44)	**890**	**964**	**13,773**	**7,559**
Projects reinvesting cost reductions (10)[3,4]	937	–	16,834	–
Total (54)	**1,827**	**964**	**30,607**	**7,559**

NOTES

1 One project, which requires £6.3 million of funding and is projected to deliver running cost reductions of £21 million, is also expected to lead to a £217 million reduction in Annually Managed Expenditure (paragraph 1.8).

2 These projects support HMRC's wider development (e.g. Child Benefit reform). A further 14 projects (£362 million), mostly to maintain the IT infrastructure, are not included.

3 The target to increase tax revenues by £7 billion a year by 2014-15 (paragraph 1.3) amounts to cumulative revenues of £16.834 million over the period.

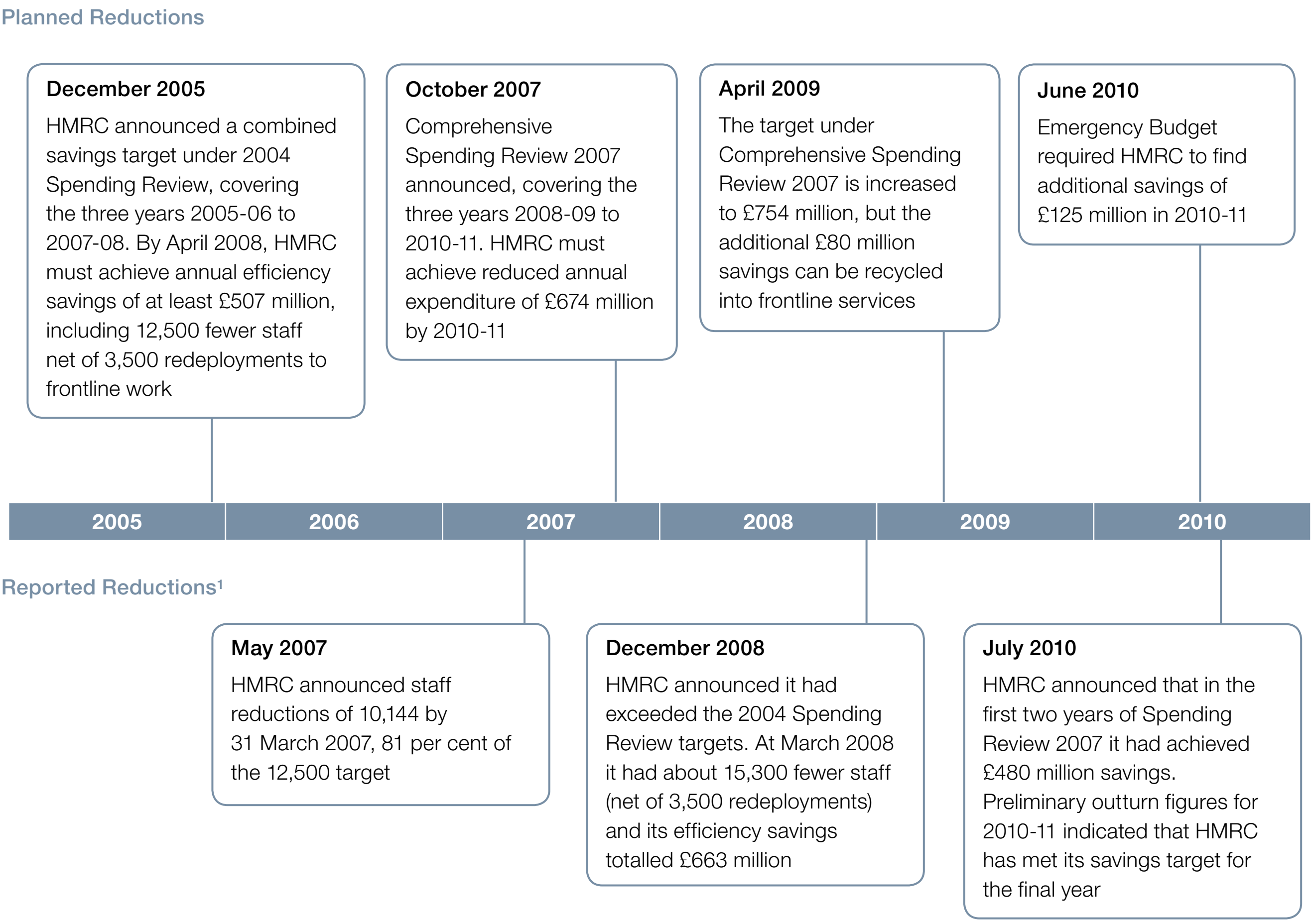
4 The return on re-investment projects is not directly comparable with the return on projects whose primary benefit is additional revenue. The latter includes the continuation of some legacy projects which were largely funded prior to 2011-12 and whose revenue benefits are approaching maturity.

Source: National Audit Office analysis of HM Revenue & Customs data

1.15 In July 2010 we evaluated HMRC's progress in delivering its Spending Review 2007 savings over the first eighteen months. HMRC reported that it had achieved £300 million of savings, mainly through reducing headcount by 10,000 and vacating 97,000 square metres of property between 2008 and 2010. We concluded that £121 million of the claimed savings fairly represented sustainable cash releasing savings and a further £129 million could represent cash releasing savings but not all of the criteria for sustainable efficiency savings were met. This was mainly because the savings had not been reported net of implementation costs, although these would deliver substantial ongoing reductions in spending in future years. We reported significant concerns over £38 million of reported savings because they were either not reported net of ongoing costs; not evidenced; or not new.

Figure 5
Previous savings in running costs reported by HMRC

HMRC was formed in 2005 following the merger of Inland Revenue and HM Customs and Excise



NOTE
1 The National Audit Office has validated only part of the Spending Review 2007 savings (paragraph 1.15).

Source: National Audit Office summary of HM Revenue & Customs publications

1.16 HMRC took a different approach to the Emergency Budget reductions of £125 million in 2010-11, which had to be made in a shorter timescale. HMRC found it difficult to reduce spending on staff, IT and accommodation at short notice, as these required funding to secure staff exits or were covered by long-term contracts. Savings eventually focused on budgets where there was greater discretion, such as consultancy and travel costs where the Department sought reductions by encouraging staff to assess the need to travel and to purchase cheaper tickets.

Part Two

Identifying and assessing cost reduction measures

2.1 Changing the way services are delivered can enable an organisation to streamline functions and eliminate unnecessary layers of administration. Unless large scale cost reductions are introduced as part of wider structural changes, they are unlikely to be sustainable, risking disruption to service delivery. We evaluated HMRC's approach against the following criteria:

- having in place a target operating model;
- understanding the cost and value of activities; and
- knowing the key assumptions underpinning planned cost reductions.

Determining a target operating model

2.2 The first stage to achieving large scale cost reductions is to define a target operating model that is, in effect, a vision of how an organisation will look in the future given its objectives. Such a model should be refined through regular iteration as the analysis of information develops. By drawing on analysis of the cost and value of existing activities and comparing these to the target operating model, an organisation can start to prioritise where it uses its resources and identify areas to be trimmed.

2.3 HMRC established a vision for 2015 which set the context for negotiating its Spending Review settlement and developing its cost reduction measures. Its *Purpose, Vision and Way* statement, published in 2008, makes clear what the Department exists to do and how it will deal with customers and staff. The vision element is to close the tax gap[1]; for customers to feel that the tax system is simple and even-handed; and for HMRC to be seen as a highly professional and efficient organisation. HMRC's Business Plan expresses the vision as becoming an administration that is more efficient, more flexible in dealing with customers and more effective in collecting tax revenues.

2.4 HMRC supplemented its high-level strategy with a customer-centric strategy. The strategy seeks to puts customer understanding at the heart of HMRC's activities, so that it can maximise its influence on customer behaviour to improve the level of customer compliance. The strategy sets out the spectrum of customer behaviours; the principles that shape HMRC's approach to customers in each group; and the actions it will take (**Figure 6** on page 20). HMRC used its vision and customer-centric strategy as a broad framework for identifying cost reduction and change proposals.

1 The tax gap is the difference between the tax payable if all obligations are fully met and the tax actually collected.

2.5 As required by HM Treasury, HMRC assessed the implications of a 40 per cent and 25 per cent reduction in costs. They concluded that a 40 per cent reduction would involve a fundamental reorientation of tax administration and HMRC's relationship with customers; and policy redesign of the major taxes. HMRC concluded that such changes could not be achieved within the timeframe of the Spending Review. HMRC then assessed the impact of 25 per cent cost reductions on its ability to collect tax revenues, while seeking to ensure proposals had no adverse impact on customers. HMRC and HM Treasury also explored the potential benefits of re-investing some savings into enforcement and compliance work aimed at reducing the tax gap. These discussions formed the basis of the Spending Review settlement (paragraph 1.4).

2.6 In developing its proposals, HMRC identified a number of targets and priorities that it would seek to deliver by 2015. Its priorities were to reduce the tax gap; tackle fraud and error in the tax credits; and stabilise the PAYE system. HMRC also made commitments to at least recover customer satisfaction to 2009-10 levels by 2014-15 and to improve some other aspects of customer experience, such as responding to telephone calls and reducing the backlog of customer correspondence. The revenue targets for 2015 were clearly defined and based on detailed analysis. HMRC did not, though, have a full and clear definition of other aspects of its business performance that it was seeking to achieve by 2015.

2.7 HMRC's 2011-15 business plan sets out its reform priorities and spending plans for the next four years. Overall, it seeks to achieve organisational redesign and rationalise its estate into fewer properties in 16 key locations by 2020. It also aims to bring in more fundamental changes in approach in some business areas. For example, the Personal Tax business area is planning measures that seek to rationalise contacts centres, substantially reduce the number of low-value calls and increase electronic interaction with customers. The business areas are producing plans for delivering the proposed changes.

2.8 HMRC has also developed a performance management framework to measure and assess its performance over the Spending Review period. In doing so, it has set its expectations for some of its 2011-12 performance indicators. HMRC has not, however, set targets for improving the overall level of customer compliance, for example by increasing the proportion of taxpayers in the more compliant, cheaper to serve segments, such as the willing and able (Figure 6). Analysis of intended business performance and levels of customer compliance would provide a framework for assessing the overall cost base needed, and for evaluating the changes that are needed.

Figure 6
HMRC's customer-centric strategy

The Compliance Spectrum	Fully compliant →						Organised crime
Customer group	**Willing and Able** 53 per cent personal taxpayers 50 per cent SMEs[1] 42 per cent benefits and credits claimants	**Needs help around customer life events** 21 per cent personal taxpayers 15 per cent SMEs[1] 52 per cent benefits and credits claimants	**Always needs help** Small numbers	**Potential rule breakers/ negligent** 11 per cent personal taxpayers 28 per cent SMEs[1]	**High value/large complex customers** 5,000 personal taxpayers 10,400 large businesses	**Rule breakers** 4 per cent personal taxpayers 7 per cent SMEs[1] 6 per cent benefit and credits claimants	**Organised criminals** Not known, tax loss of £5 billion a year
HMRC's objectives	Grow sector Increase voluntary compliance Serve at lowest cost for HMRC Improve perception of simplicity/even-handedness	Reduce sector Move customers into willing and able Increase voluntary compliance Deter potential rule breakers Serve at lowest cost to HMRC and customers Improve perception of simplicity/even-handedness	Keep sector as small as possible Serve at lowest cost while meeting customer needs Improve perception of simplicity/even-handedness	Reduce sector Move customers into willing and able Increase voluntary compliance Deter rule breaking behaviour	Protect tax base and business environment Increase voluntary compliance Resource to highest risk	Find them and obtain the extra tax Deter repeat rule-breaking Resource to highest risk	Reduce losses to organised criminal attack
Examples of how HMRC interacts with the group	Transactions and guidance mainly through electronic channels except for complex queries Enable customers to self serve	Early intervention through education and advice Mainly use automated channels with personalised help for riskiest	Personal service through mix of channels Use intermediaries where relevant	'One-to-many' compliance interventions and campaigns Incentivise contact and penalise if customer does not make contact	Personalised relationship management Real-time working to resolve issues	Targeted interventions and campaigns, based on risks Active management of offenders' compliance	Intelligence to identify threats System and process changes to eliminate weaknesses Enforcement response

NOTE
1 SMEs are Small and Medium Enterprises.

Source: National Audit Office summary of HMRC's strategy

HMRC's understanding of the cost and value of its activities

2.9 Robust information on an organisation's costs, and relating them to value, increases the likelihood that cost reductions will lead to efficiency savings. Without a clear understanding of the use of resources, including cost drivers and unit costs of activities and processes, together with an understanding of how they link to outputs and outcomes, departments cannot make rational choices about what to stop, what to change, and what to continue. We evaluated HMRC's approach to identifying and assessing the cost reduction initiatives against these criteria.

2.10 In identifying cost reductions, HMRC was able to draw on its past experience from the previous Spending Reviews. It has rolled forward nine ongoing projects, including the programme to increase online filing, into the Change Programme. HMRC estimates that these projects will generate £86 million of cost reductions and £7.6 billion of additional tax revenue over the next four years.

2.11 HMRC had recognised the need to make further cost reductions in advance of the Spending Review. It had started planning in October 2009, working on the basis that it would be required to make cost reductions of 22 per cent over three years – a similar level of reduction to the final settlement. By March 2010, as a result of two HM Treasury initiatives, HMRC had identified potential savings of some £441 million which also fed into its Change Programme. These evaluations focused on the Corporate Service, Personal Tax and Enforcement and Compliance business areas:

- £236 million from corporate services, for example by using the flexibility in its estates contracts to reduce the number of offices used and reducing IT costs through decommissioning and rationalising outdated systems; and

- £205 million from using less staff on customer contact activities, debt management work and risk based compliance work.

2.12 HMRC has a good understanding of the main costs it incurs on staff, accommodation and IT. The main costs incurred by HMRC's business areas undertaking frontline activities is staff, which is controlled through headcount allocations and budgets. These areas also control travel costs and small sundry items. Support activities, notably IT support and accommodation, are organised and controlled centrally by Corporate Services to help secure economies of scale.

2.13 HMRC's business areas assessed the potential for cost reductions. Some, such as Corporate Services, were able to draw on good quality cost data. In particular:

- HMRC benchmarked its accommodation and IT costs against the private sector and other Government departments. It has information on the cost, occupancy and average personal floor space for individual buildings which also enabled comparisons between its buildings.
- In September 2010 consultants benchmarked HMRC's unit costs for common types of IT items against similar enterprises.
- The IT directorate has used unit cost data to benchmark costs between business areas; identify waste (for example, by turning off unused licences); and raise awareness of the importance of sound financial management.

2.14 To improve its understanding of costs, HMRC also identified 17 key 'customer journeys' across different taxes and types of customer behaviour. These journeys identify the frequency and nature of interactions with customers in order to estimate the costs, and assess how the processes could be streamlined to provide a cheaper and more effective service for both parties. By analysing customer journeys in this way, HMRC has begun to fundamentally assess the nature of its customer engagement, but it has further to go in assessing the relationship between its outputs/outcomes and costs to understand how it can best reduce costs.

2.15 Our previous reports have highlighted a limited understanding of the link between costs and performance, and variability in the quality of cost data across HMRC for individual processes. We reported in June 2010 that HMRC did not have a clear picture of the total costs incurred in administering National Insurance, and how these had changed.[2] Our July 2010 report on HMRC's Spending Review 2007 savings concluded that it had not assessed the impact of cost reductions on its business performance.[3] And in December 2010 we reported that HMRC did not have sufficiently detailed information on the cost-effectiveness of different types of enforcement activity.[4] HMRC has also recognised that its management information on the end to end cost of key processes needs to be developed, and has limited its ability to prioritise investment in re-engineering its processes. As a result, HMRC was not well placed to make fully informed judgements on how best to reduce costs in a way that would secure value for money.

2 *HM Revenue & Customs: The efficiency of National Insurance administration* HC184, 2010-11 (June 2010)
3 *HM Revenue & Customs: Independent review of reported CSR07 value for money savings* HC293, 2010-11 (July 2010)
4 *HM Revenue & Customs: Managing civil tax investigations* HC677, 2010-11 (December 2010)

2.16 HMRC's approach to identifying cost reductions therefore drew on a number of evidence sources and made use of available cost data. For each project in the Change Programme, it assessed the strategic and economic case for change, and the risks and dependencies for successful delivery. The initial estimates of costs, benefits and the required funding were, though, based on preliminary cost data and high-level assumptions. HMRC is now refining the estimates as it develops the full business cases for the projects. Until these are completed, the estimates in the cost reduction plan are subject to uncertainty.

2.17 HMRC is seeking to produce better data on the costs of individual activities and to link costs to value. This work had not progressed sufficiently to make a meaningful contribution to the scoping of the cost reduction measures in the Change Programme. It should improve the quality of HMRC's cost data:

- a *Cost to Serve Calculator:* building on the mapping of customer journeys, this enables HMRC to analyse the costs it incurs on different types of customer interactions, and the costs incurred by the customer; and
- an *Enterprise Level Process Model* which seeks to analyse the costs, work volumes and performance level across 23 key processes. HMRC has piloted the model to inform its thinking on VAT online migration. It expects to develop the model sufficiently to contribute to later stages of the Spending Review period by helping to identify further cost reduction opportunities.

The key assumptions underpinning cost reductions

2.18 In addition to the Change Programme projects, business areas are required to achieve savings of £647 million over the next four years. We evaluated the reasonableness of the assumptions that underpin these estimates and found:

- **Achieving IT savings:** £235 million (36 per cent) will come from agreed changes in the provision of IT services.
- **Achieving staff reductions:** In broad terms, HMRC expects that the rate of natural wastage, through retirements and resignations, will be sufficient to achieve most of the reduction in staff posts. HMRC's settlement provides it with ring-fenced funding for staff exits. Due to the scale of the task of identifying suitable staff to redeploy and retrain for compliance work, it is presently unclear whether this funding will be sufficient to enable HMRC to deploy the right staff in the right parts of the business.
- **Improving productivity:** mainly through rolling out the PaceSetter programme for improving business operations using Lean principles. At May 2011, HMRC was estimating the savings PaceSetter will make. Our July 2011 report on PaceSetter concluded that the programme is likely to have led to some improvements in efficiency and a small positive effect on staff engagement. But the extent of efficiency improvements was not clear because of limited evidence on trends in business performance. Productivity gains are also planned from better targeting of compliance work using risk profiling of customer groups.

- **Reducing sickness absence:** HMRC plans to reduce sickness absence to an average of 7.9 days per person in 2011-12, from 9.9 days in 2010-11, through closer management of individual cases which was piloted in selected areas of HMRC in 2010-11. Although these pilots successfully reduced sickness absence, overall HMRC did not achieve its target of an average 9 days per person in 2010-11. HMRC has not yet set targets beyond 2011-12. For the year ending September 2010, the latest figures available, the average number of working days lost per person was 8.5 across the Civil Service. Our consultants advised that increased sickness absence is common when an organisation undertakes restructuring involving job losses.

2.19 HMRC has not currently built any contingencies into its cost reduction plans, although it does have contingency in its plans for generating additional revenue. **Figure 7** shows the profile of savings for the Change Programme projects over the next four years and illustrates the importance of delivering cost reductions in line with the planned trajectory. For example, the planned cost reductions of £68 million in 2011-12 represent 16 per cent of new savings but contribute 28 per cent of the total planned savings over the Spending Review period when sustained in each subsequent year. Correspondingly, the new cost reductions of £158 million planned for the final year, 2014-15; represent 36 per cent of all new cost reductions but only 16 per cent of total.

Figure 7
Profile of savings from cost reduction projects 2011-12 to 2014-15

When new savings begin and percentage of total new savings	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	Total (£m)	Total (%)
Savings from 2011-12 (16 per cent)	68	68	68	68	**272**	**28**
New savings from 2012-13 (26 per cent)	–	115	115	115	**344**	**36**
New savings from 2013-14 (22 per cent)	–	–	95	95	**190**	**20**
New savings from 2014-15 (36 per cent)	–	–	–	158	**158**	**16**
Total savings per year	68	183	278	435	**–**	**–**
Cumulative savings	**68**	**251**	**528**	**964**	**964**	**100**

NOTE
1 Totals may not sum due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

2.20 Wider experience indicates that organisations tend to over-estimate how much their cost reduction plans will actually save and best practice is to identify a contingency of 50 per cent. HMRC has not identified a pool of reserve cost reduction projects to address any slippage or under-delivery against plans. Regardless of when new cost reductions start, HMRC will need to find additional cost reduction measures to offset any slippage.

2.21 HMRC expects its business areas to live within their annual budgets while maintaining performance, and to take action if cost reduction projects do not deliver their planned benefits. HMRC has also developed governance arrangements to identify early signs of under-delivery, assessed the delivery risks at a strategic level and is now factoring the risk of under-delivery into its detailed plans. There remains a risk, however, that new measures to compensate for any shortfall could lead to short term or non-sustainable cost reductions, that could have an adverse impact on business performance.

Part Three

Implementing cost reduction measures

3.1 HMRC faces a significant challenge over the next four years. It has to implement its Change Programme, deliver operational priorities, increase revenues and improve customer service. The changes require successful management and implementation of an organisational change programme. We evaluated HMRC's:

- leadership and governance arrangements; and
- programme management arrangements.

Leadership and governance

3.2 Without strong leadership and governance arrangements, including clear accountabilities for delivery, there may be insufficient incentives to push through difficult decisions or maintain momentum, which could result in departments not delivering planned cost reductions.

a) Leadership

3.3 HMRC's Executive Committee will oversee progress in implementing cost reductions. The Chief Executive has overall responsibility and is accountable for delivery of the Change Programme. The Chief Information Officer, as Director General for Change, is responsible for overseeing the Change Programme and chairs the Change Delivery Committee, which is responsible for ensuring that investment projects deliver the expected benefits. Two other sub-committees relevant to cost reduction are the Investment Committee, which authorises all departmental change initiatives requiring an investment of funds, and the Performance Committee, which is involved indirectly as it oversees departmental operational performance. Director Generals are accountable for delivering change projects and cost reductions, and driving performance in their business areas.

3.4 HMRC's Executive Committee recognises the need to address the low levels of staff engagement to deliver its Change Programme successfully. In the 2010 Civil Service People survey, HMRC's employee engagement index was the lowest across the Civil Service at 34 per cent, compared to an average of 57 per cent. The survey's conclusions were that staff generally take pride in their work, but are not engaged with HMRC as an organisation, and that it had not managed change well. For example, while HMRC scored just 17 per cent for leadership and the management of change, it scored 74 per cent for local teamwork and encouraging staff to come up with better ways of doing things.

3.5 The Executive Committee intends to remove the frustrations faced by staff, ensure the leadership is more visible and accessible, and engage staff in the changes. Through its organisational redesign it has looked to appoint to senior positions people with the right leadership skills and it plans to engage teams in driving continuous improvement. It has also launched its One HMRC/One Deal to rebuild its relationship with staff, by setting out what they can expect of HMRC as an employer and its expectations of employees. HMRC has also developed a separate communications strategy to ensure that staff are informed of changes; there is a meaningful dialogue and debate; and messages are clear and consistent. This includes monthly written updates and regular site visits by senior officials.

b) Governance

3.6 By May 2011 HMRC had put in place a governance structure for implementing the Change Programme. It has allocated responsibilities for delivery and ensured that officials will be held accountable for specific projects and cost reductions in business areas (**Figure 8**). While the arrangements look satisfactory on paper, there is some uncertainty about their overall robustness given that implementation of cost reduction work is still at an early stage. HMRC also has well-established systems for setting budgets and tracking expenditure to ensure that business areas keep within their budgets.

3.7 By April 2011 HMRC had revised and strengthened its Performance Measurement Framework to take account of Spending Review commitments. The Framework is a departmental-wide report, submitted to the Performance Committee, which focuses on progress in: maximising revenue to close the tax gap; improving customer experience; professionalism and integrity; cost management and efficiency; people and leadership; and high quality IT. From 2011-12 HMRC will also publish a range of input and impact indicators such as the unit costs of administering the main taxes and benefits; the cash collected from compliance work; levels of tax credit error and fraud; the costs for customers in dealing with HMRC; and survey results on how well HMRC meets its Customer Charter.

Figure 8
Main features of HMRC's governance arrangements

Change Directors appointed to oversee the cost reduction and Change Programme initiatives in their business areas and are accountable to the relevant Executive Committee member.

Project managers appointed for each project and are accountable to a specified Change Director for progress.

Business areas are responsible for ensuring that budgets are met, using well established systems in HMRC for monitoring and authorising expenditure.

The central change programme team is responsible for assuring delivery of overall implementation of the Programme. It has access to a pool of staff experienced in project management that can take control of key projects if they are not progressing as planned.

Central Finance monitors the cost reductions achieved and progress towards targets.

Source: HM Revenue & Customs

3.8 In addition to HMRC's internal governance arrangements, there will also be external oversight. The Major Projects Authority has been monitoring HMRC's Change Programme since April 2011. The Authority, which is part of the Cabinet Office, will review and give assurance on major projects across departments. It will also have the power to intervene directly, where appropriate, in the delivery of major failing projects, including the provision of direct support. Departments will need to adhere to the Authority's assurance processes to obtain HM Treasury's financial approval for major projects.

Programme management arrangements

3.9 The structural transformation required to secure cost reductions depends on the successful implementation of an organisational change programme. Without a dedicated programme infrastructure, individual projects will proceed in isolation with no central coordination to prioritise resources, exploit interrelationships, reduce overlaps between initiatives and ensure that all projects contribute to departmental objectives. Progress must also be monitored regularly against the baseline plan.

3.10 Achieving planned progress on cost reduction projects in 2011-12 is crucial to HMRC achieving its overall plans. Making full and productive use of allocated investment funds is a critical success factor, as HMRC has limited flexibility to carry forward any underspend against its annual allocations. HMRC has allocated £136 million in 2011-12, some 43 per cent of the total for cost reduction projects (**Figure 9** overleaf). £35 million of this funding relates to legacy projects and £101 million to new cost reduction projects. However, HMRC does not expect full business cases for some of the new projects to be ready for submission to the Investment Committee until late summer 2011.

Figure 9
Funding profile of cost reduction projects

	Funding	
	(£m)	(%)
2011-12	136	43
2012-13	85	27
2013-14	61	19
2014-15	37	12
Total	**319**	**100**

NOTE
1 Totals may not sum due to rounding.

Source: HM Revenue & Customs

3.11 Nearly £1 billion of cost reductions and £1.7 billion of additional tax revenues are dependent on successful delivery of the Change Programme cost reduction projects. HMRC believes it has sufficient funding to implement its Change Programme. By grouping similar types of investment to get the benefits of scale, HMRC expects to eliminate an overall 8 per cent shortfall in investment funding.

3.12 HMRC has a detailed schedule of the 54 cost reduction and other Change Programme projects (Figure 4 on page 16), providing an overview of proposed changes and delivery timescales. At May 2011, it had prepared outline cases for each project showing an initial assessment of costs and benefits, risks to delivery and alignment with strategic goals. To facilitate early implementation of projects, HMRC introduced a fast-track process to release funds in advance of formal approval of some full business cases. It has also implemented projects to recruit 200 investigators for its expansion in compliance and enforcement work, as it takes around one year to develop their capability. In addition, HMRC had established the reporting arrangements to track the progress of individual projects.

3.13 HMRC has identified three factors critical to implementation of its plans:

- management capacity: there will be significant calls on management time from implementing the Change Programme and managing the business over the next four years;
- staff engagement and support: senior management recognise the need to increase staff engagement (paragraph 3.4); and
- staff training and redeployment: redeploying some 9,000 posts into compliance and enforcement work will require coordination across business areas and office locations, and a significant training programme to ensure they have the required skills.

3.14 HMRC is responding to these challenges. It has appointed a team of change managers to implement the projects, although this was slower than planned and some are temporary appointments because of the need to first decide senior management appointments arising from HMRC's organisational redesign. HMRC has also developed a comprehensive workforce change plan for the Spending Review period, with enhanced planning for the first year that sets out projected losses through natural wastage; targeted exits; recruitment needs and redeployment movements. The plan gives a good overview of the staff movements needed. To ensure it can demonstrate that efficiency savings of 25 per cent have been achieved, HMRC is recording the redeployment of staff to higher value work within the enforcement and compliance business area (paragraph 1.5).

3.15 HMRC has developed a Change Plan, published in February 2011, setting out the key projects in the Change Programme and when they will be implemented. It has yet to assess the overall practical implications of delivery, such as all the dependencies between projects and the critical path for delivering the cost reductions and its wider Change Programme. Many parts of HMRC are delivering multiple projects and many of the projects are interdependent. **Figure 10** overleaf shows the key dependencies for the largest cost reduction projects. For example, delivering the planned savings from vacating accommodation will depend on delivering planned staff reductions; the availability of funding to meet upfront costs; and innovative working with other government departments to maximise the use of space.

3.16 The most significant changes are planned in the Personal Tax business area, where staff numbers are expected to reduce by 34 per cent overall over the four years to 2015. Personal Tax is responsible for HMRC's key priorities of stabilising the National Insurance and PAYE Service by 2013, for which it has been allocated an additional £34 million in 2011-12, and introducing real-time information to support more fundamental changes to the PAYE service from 2013 as well as wider reform of welfare benefits (paragraph 1.8). Personal Tax has been allocated an additional £42 million in 2011-12 to support the delivery of these changes. Personal Tax also plans major cost reductions from remodelling its customer operations and telephone contact centres and from eliminating unnecessary calls and greater use of recorded messages and online self-help facilities (Figure 10).

3.17 Our report on HMRC's 2010-11 Accounts examined HMRC's progress in stabilising the PAYE service, to address major problems experienced during 2009 and 2010 in assessing Income Tax following the introduction of a new computer system. The problems arose from poor quality data in the legacy systems and the specification of the new system. This also led to a deterioration in HMRC's performance in responding to telephone calls as the volume of enquiries rose. We identified a number of factors that created uncertainty surrounding the additional resources that Personal Tax will require to deal with the work involved in stabilising the PAYE service, and in making changes to the operation of PAYE under the Real Time Information project.

Figure 10
The largest cost reduction projects and their dependencies

Project (Business area)	Description	Planned cost reduction 2011-12 to 2014-15 (£m)	Dependencies
Future Service Delivery (Personal Tax)	Three year programme bringing together certain contact centres and Customer Operations to reduce costs and provide a better customer service	193	Dependencies include delivery of workforce and estates strategies, the impact of policy changes on workloads, and a sufficiently stable environment in which to launch the new model, given other changes in Personal Tax. Links with other contact centre change projects, such as Demand Management (below)
Estate Strategy (Corporate Support)	Reduces the accommodation used to achieve Government benchmark of 8 square metres per person from current level of 16 square metres per person	143	Vacating property depends on organisational redesign, achieving staffing reductions in business areas, funding of upfront cost, and innovative solutions with other departments
Demand Management (Personal Tax)	Reduces contact centre demand by 17 million calls, by eliminating unnecessary calls and migrating lower value calls to telephony or online self search facilities	94	Links to other programmes to reduce calls including various online and behavioural change programmes. Also depends on prioritisation within business areas and integrating self-serve approaches with the telephony platform
Online self service (Personal Tax)	Facilitates increased electronic interaction with HMRC through wider provision of online forms and guidance tools	87	Depends on strategy for outbound e-contact. Links with Behavioural change programmes, Personal Tax change plans, and One-Click programme

Source: HM Revenue & Customs

Appendix One

Methodology

The main elements of our fieldwork, between December 2010 and May 2011, were:

Method	Purpose
Interviews: we conducted semi-structured interviews with senior HMRC officials responsible for cost reduction planning, the Change Programme, the customer centric strategy, the workforce change plan, enforcement and compliance, and initiatives to improve HMRC's understanding of its costs.	To understand the processes for planning, monitoring and delivering cost reductions.
Document review: we reviewed papers on key matters discussed during the semi-structured interviews, including selected cost reduction projects.	To confirm our understanding of the processes for planning, monitoring and delivering savings.
Financial/quantitative data analysis.	To understand HMRC's cost reduction and investment forecasts and to identify the savings achieved from earlier cost reduction measures.
Literature review: we reviewed private sector literature and research relating to the successful delivery of cost reduction programmes.	To identify good practice and lessons learnt from other cost reduction programmes.
External input: we commissioned consultants Deloitte and Amtec to develop a good practice framework for cost reduction and advise on its application to HMRC's plans.	To review HMRC's progress in developing robust cost reduction plans.

Our methodology is explained in more detail on the National Audit Office website www.nao.org.uk/hmrc-cost-reduction-2011.

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